

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CEA-01 CIAE-00 COME-00
EB-08 FRB-03 INR-07 IO-13 NEA-10 NSAE-00 USIA-06
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00 OMB-01
DODE-00 DOTE-00 FMC-01 SAL-01 CG-00 DLOS-06 OES-06
SS-15 NSC-05 L-03 STR-04 /125 W
-----031618 004345 /42

R 031535Z MAR 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6118
INFO USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY THE HAGUE
AMEMBASSY TOKYO
AMEMBASSY OSLO
AMEMBASSY STOCKHOLM
AMEMBASSY COPENHAGEN
AMCONSUL HAMBURG
AMCONSUL BREMEN

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E.O. 11652: N/A
TAGS: EIND, ECON, GW
SUBJ: FRG SHIPBUILDING INDUSTRY IN THE CRISIS

REF: (A) OECD PARIS 4431, (B) 76 BONN A-298,
(C) EC BRUSSELS 537

1. SUMMARY: FRG POLICY DURING THE PRESENT CRISIS IN THE
WORLD SHIPBUILDING INDUSTRY AIMS AT KEEPING ASSISTANCE
SCHEMES FOR THE GERMAN YARDS WITHIN THE LIMITATIONS OF
PRESENT OECD AGREEMENTS AND PERSUADING SOME OTHER
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EUROPEAN GOVERNMENTS, WHOSE INDUSTRIES ARE HARDER HIT
THAN THE GERMAN, TO DO THE SAME. END SUMMARY.

2. ACCORDING TO AN ECONMIN MEMBER OF THE FRG
DELEGATION TO THE OECD WORKING PARTY (WP 6) ON
SHIPBUILDING, EUROPEAN PRODUCERS SEE THE JAPANESE
PROPOSALS (REFTEL A) TO RAISE SHIP PRICES AND RESTRAIN

EXPORTS AS HELPFUL. HOWEVER, SOME PRODUCERS ALSO WANT IMMEDIATE ACTION TO INCREASE ASSISTANCE TO THEIR OWN INDUSTRIES, SINCE THERE IS NO ASSURANCE OF THE TIMING OR EFFECTIVENESS OF JAPANESE PLANS. THE BRITISH, DUTCH, AND SOME OF THE SCANDINAVIAN DELEGATIONS ARE DESCRIBED AS MOST INSISTENT ON THIS POINT.

3. THE FRG POSITION IS THAT ANY ADDITIONAL ASSISTANCE PROGRAMS SHOULD BE CONSISTENT WITH PREVIOUS OECD AGREEMENTS ON SHIPBUILDING INDUSTRY SUBSIDIES AND THAT THE SAFEGUARD CLAUSES IN THESE AGREEMENTS PROVIDE AMPLE SCOPE FOR ADDITIONAL ASSISTANCE. ALTHOUGH MOST PRESENT SUBSIDY LEVELS ARE FROZEN BY AGREEMENT, INVESTMENT SUBSIDIES FOR ADJUSTING PRODUCTION AND EXCEPTIONS FOR PARTICULARLY HARD HIT YARDS ARE ALLOWED. THE FRG WILL TRY TO GAIN ACCEPTANCE OF THIS PRINCIPLE WHILE RESTRAINING DEMANDS AT HOME FOR NEW SUBSIDIES.

4. ALTHOUGH THE FRG SHIPBUILDING INDUSTRY IS RELATIVELY HEALTHY COMPARED TO THE HARDEST HIT EUROPEAN INDUSTRIES, IT IS ALSO SEEKING INCREASED ASSISTANCE TO REACH THE NEXT UPTURN IN ORDERS IN GOOD CONDITION. (PRESENT ORDERS WILL KEEP THE GERMAN YARDS OCCUPIED THROUGH THE FIRST QUARTER 1978). TOTAL EMPLOYMENT IN THE INDUSTRY IS 72,000 NOW AND 6000 WORKERS HAVE LEFT SINCE MID 1975. THE INDUSTRY ESTIMATES THAT 4000 MORE WILL HAVE TO LEAVE BEFORE THE EXPECTED RECOVERY IN DEMAND IN 1980. NORTHERN GERMANY, HOWEVER, IS AN LIMITED OFFICIAL USE

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ECONOMICALLY WEAK REGION AND COMMANDS MUCH POLITICAL INTEREST. ALTERNATIVE WORK FOR THESE 10,000 WORKERS IS HARD TO FIND AND THE GERMAN LABOR FORCE IS VERY IMMOBILE.

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5. PROPOSALS TO INCREASE AID TO THE INDUSTRY ARE COMING TO THE ECONMIN FROM OWNERS, UNIONS, AND PARLIAMENTARY LEADERS. A COMMON COMPONENT OF THESE PROPOSALS IS AN INCREASE IN THE SUBSIDY (PRESENTLY 12 AND ONE HALF PERCENT) GIVEN TO GERMAN PURCHASERS OF COASTAL AND RIVER SHIPS. THE FREEZE ON NEW SUBSIDIES DOES NOT APPLY TO THESE SHIPS AND THE INDUSTRY CLAIMS THAT INCREASED ORDERS OF THESE TYPES COULD GO A LONG WAY IN LIMITED OFFICIAL USE

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BRIDGING THE GAP IN ORDERS. THE DM 180 MILLION SUBSIDY TO COASTAL AND RIVER SHIP PURCHASERS PLANNED FOR 1977 COULD THEORETICALLY MULTIPLY TO OVER DM 1.5 BILLION IN NEW ORDERS FOR GERMAN YARDS. ALTHOUGH THE FRG DOES NOT OVERTLY TIE THE SUBSIDIES TO THE PURCHASE OF GERMAN-BUILT SHIPS, MOST SUBSIDIES, EITHER OUT OF PREFERENCE OR SUGGESTION, ARE USED TO BUY GERMAN SHIPS. ECONMIN ARGUES, HOWEVER, THAT INCREASED SUBSIDIES WILL NOT NECESSARILY MEAN MORE ORDERS IF THERE IS NO ADDITIONAL DEMAND FOR SUCH VESSELS.

6. ANOTHER COMMON PROPOSAL FOR INCREASED AID IS TO

HAVE THE FRG GUARANTEE THE AGREED UPON 8 PERCENT FINANCING CEILING, NO MATTER WHAT THE COMMERCIAL INTEREST RATE. PRESENT FRG PRACTICE IS TO SUBSIDIZE FINANCING UP TO A 2 PERCENT REDUCTION IN THE RATE. THIS PROPOSAL, HOWEVER, IS UNCOMFORTABLY OPEN ENDED IN ITS FINANCE REQUIREMENT IMPLICATIONS.

7. ACCORDING TO ECONMIN SOURCE THESE PROPOSALS DO NOT HAVE A CHANCE WITH THE FINANCE MINISTRY AND WILL BE RESISTED BY THE GOVERNMENT. ECONMIN SUPPORTS AN ALTERNATIVE WHICH CALLS FOR THE EXTENSION OF THE EXPANDED DEVELOPMENT AID PROGRAM TIED TO PURCHASES OF GERMAN SHIPS WHICH WAS INITIATED IN 1976 JUST BEFORE THE NATIONAL ELECTIONS (REF B). ECONMIN IS PROPOSING A 1977 COMMITMENT OF DM 140 MILLION, THE SAME AMOUNT AS WAS CONTAINED IN THE 1976 CAPITAL AID PROGRAM. THE DM 140 MILLION IN 1976 RESULTED IN SHIP ORDERS OF DM 400 MILLION FOR GERMAN INDUSTRY. CASH

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